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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes' Third Quarter Earnings Conference Call. (Operator Instructions) Today's call is also being recorded. If you have any objections, please disconnect your lines at this time.

I would now like to introduce participants on today's conference call: Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Stan Sutula, Executive Vice President, Chief Financial Officer; and Mr. Adam David, Vice President, Investor Relations.

Mr. David will now begin the call with the safe harbor overview.

Adam David *Pitney Bowes Inc. - VP of IR*

Good morning. Included in this presentation are forward-looking statements about our expected future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. More information about these risks and uncertainties can be found in our earnings press release, our 2018 Form 10-K annual report and other reports filed with the SEC that are located on our website at www.pb.com and by clicking on Investor Relations.

Please keep in mind that we do not undertake any obligation to update any forward-looking statements as a result of new information or developments. Also for non-GAAP measures used in the press release or discussed in this presentation, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our Investor Relations website.

Additionally, we have provided slides that summarize many of the points we will discuss during the call. These slides can also be found on our Investor Relations website.

Now our President and Chief Executive Officer, Marc Lautenbach, will start with a few operating remarks. Marc?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
Thank you, Adam, and thank you all for joining the call. We delivered a solid quarter and one of the best quarters for revenue growth in a very long time. At an enterprise level, revenue this quarter grew 6% when adjusted for currency and market exits, which was driven by 20% growth in our Global Ecommerce business and an improved performance in our global SMB organization, which you will see from our earnings press release, we have renamed Sending Technology Solutions or SendTech for short.

While we do not expect 6% revenue growth every quarter, the third quarter performance is clear evidence that the steps we have taken, and continue to take to transform our company are paying off.

Shipping was the key driver for the quarter. Our domestic parcel services grew its delivery and return volumes 27% in the quarter to 29 million packages processed. Shipping products comprised 38% of our total revenue in the third quarter. To put this in perspective, shipping revenue was 20% of our overall revenue 2 short years ago. Importantly, we continued to bring in new clients in the quarter and of course, we continued to make the required investments to build out our network to accommodate this significant growth. As I've mentioned before, we need to invest in front of this growth.

We're also making the necessary investments to ensure we can handle what we expect to be a very successful peak season, which we are now entering. It is also true that the kind of growth we're experiencing brings some operational challenges. While we experienced some operational issues in our fulfillment business, we believe we have addressed most, if not all, and we are confident that we are well positioned to meet the demand of our clients.

Sending Technology Solutions also turned in a much improved performance in the quarter. Revenue in the third quarter declined less than 3% when adjusted for currency and market exits, which is much better than recent trends. Particularly of note, we grew equipment sales in 4 out of 7 major markets, including the United States. Within SendTech, through the end of the quarter, we've installed over 100,000 SendPro C units since launching this product 2 years ago, and we're on track to roll out the SendPro C to all major markets outside of North America within the next 6 to 9 months.

We're also in the process of extending our physical footprint within the SendPro family of products to our low-end client base over the next several months in the U.S. This will mark a significant milestone, making the majority of our SendTech products refreshed with a modern shipping and mailing platform and easy-to-use client interface and connected via our world-class IoT technology.

Our Presort business turned in a solid performance, growing revenue 5% in the quarter on improved volumes. Presort margins also improved from its first half performance as a result of initiatives we put in place earlier in the year. We expect these trends to continue to improve.

Also in the quarter, as you know, we sold our software and data business. Our software business has grown in 2017 and 2018. This enabled us to sell the business for $700 million, which was an attractive price at a strong multiple. As I have said many times, we will do what is right to create long-term value for the company. Our software business has proven to be more valuable outside of PB than if it remained in our portfolio. The software business has been an essential part of the PB family, especially in helping to advance our digital transformation.

We remain focused on the balance sheet. The majority of net proceeds from the software sale are being used to pay down debt. Over the last 2 months, we have -- we paid 3 term loans due this year and next year and earlier this month, we secured a new Term Loan A. These actions in aggregate will reduce our near-term debt towers and make for a much more manageable maturity profile.

In addition, we closed our new revolving credit facility, which will provide ample liquidity to execute our business plan. We have good access to capital markets, and our team has done a nice job optimizing our debt structure. Stan will take you through more of the details in his remarks.

Finally, let me make a brief comment on the cyberattack we experienced a few weeks ago. Here are the major takeaways. First, there's no evidence that client or employee data was compromised or improperly accessed. Second, a disaster recovery processes worked, and we were back up and running relatively quickly. Third and finally, to the extent there were incremental costs of the attack, we have cyber insurance, which we believe should cover the preponderance of these costs.

Unfortunately, these kind of attacks are becoming more common in the business world today. That said, I'm pleased with how our team handled it, and I'm particularly heartened by the response from our clients. At the very outset, we were transparent with our clients with what was going on. While there's no simple recipe for how to deal with these kinds of situations, I'm proud of the urgency and diligence our team demonstrated, especially with our clients. We will continue to make the necessary investments in cyber and of course, we will make sure we operationalize whatever lessons there are to be learned from this incident.

The third quarter was an important step forward in our transformation. Revenue growth is fundamental to our transformation and in that measure, we delivered. We move forward with momentum in our shipping business, a coherent portfolio with businesses where we have a right to win and a balance sheet, which is in good shape. I've said this before, but transformations are never quick and easy, and our transformation is no exception. That said, I'm proud of the progress our team has made, and I'm particularly proud of the team's grit and resilience.

With that, let me turn it over to Stan.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Good morning, and thank you for joining the call. We made progress against our strategic initiatives in

the third quarter and turned in a solid performance overall. With the announced sale of software, we're creating more focused and streamlined portfolio, we were able to further leverage synergies and reduce cost over time while operating more efficiently around our core competencies of shipping, mailing and financing.

Let me discuss the details of our third quarter's performance. As in the past, unless otherwise noted, my statements going forward will be on a constant currency basis when talking about revenue comparisons and on an adjusted basis when talking about the earnings-related items, including cash flow. Reconciliations of all non-GAAP to GAAP measures can be found in the financial statements posted with our earnings press release and on our Investor Relations website.

Also with the announced sale of Software Solutions, current and prior period results for this business have been recorded as discontinued operations. We have posted a file on our Investor Relations website, which provides a historical view reflecting this recast.

And finally, as Marc mentioned, we have renamed global SMB to now be called Sending Technology Solutions and consolidated the reporting to be one segment. We will refer to this segment it as SendTech in our remarks going forward.

Turning to our results. The portfolio continues to shift to higher growth markets. Commerce Services comprise 52% of revenue. Our shipping-related revenues made up 38% of total revenue in the quarter. Both of these metrics are solid proof points of the progress against our long-term model.

For the third quarter, we turned in a strong top line performance. Revenue totaled $790 million and grew 4.5% over prior year. When you take the market exits into consideration, revenue grew 6% over prior year.

Looking at revenue by segment. Global Ecommerce grew 20%, Presort Services grew 5%, and SendTech solutions declined less than 3% when you exclude the impact of currency and market exits.

Adjusted EPS was $0.24 for the quarter. GAAP EPS was a loss of $0.02 and includes charges of $0.05 related to discontinued operations as well as $0.20 for restructuring and asset impairment costs, which include a noncash $0.16 impairment charge related to capitalized software costs incurred in the development of a new enterprise business platform in certain international markets. GAAP and adjusted EPS also include a net benefit of $0.13 related to the release of a foreign deferred tax asset valuation allowance, which was previously disclosed and is a onetime item.

Free cash flow was $69 million and GAAP cash from operations was $96 million. Compared to prior year, free cash flow was lower by about $7 million as we experienced lower net income and higher capital expenditures this quarter, which were partly offset by higher reserve account deposits.

Looking at capital allocation. At the end of the quarter, we had $652 million in cash and short-term investments on our balance sheet. During the quarter, we used free cash flow to return approximately $14 million to our shareholders. We repurchased 1 million shares for $5 million. We paid nearly $9 million in dividends to our common shareholders. Year-to-date, we have repurchased a total of 18.6 million shares of our stock totaling $105 million, do not anticipate any further share repurchase for the balance of the year. Within the quarter, we also used cash for capital expenditures of $36 million and restructuring payments of $6 million.

Within Wheeler Financial, we have funded the over $6 million in loans as of the end of the third quarter and have a healthy pipeline as we entered the fourth quarter. We are helping our clients to be more successful in their businesses but at the same time, we are being deliberate in the quality of clients we extend financing to.

From a debt perspective, we ended the quarter with $3.1 billion in total debt, which is about $200 million lower than prior year and $175 million lower than prior quarter. During the third quarter, we have prepaid the balance of $165 million on our term loan due in September 2020. Additionally, in November, we repaid our $150 million term loan due this month and the balance of about $280 million on a term loan due in December 2020. We have also secured a new, 5-year Term Loan A in the amount of $400 million.

And as we have communicated, we are using the net proceeds from our software sale to reduce debt. We also looked to refinance other maturities in the near term in order to reduce our future maturity towers.

Looking at the composition of our debt today, when you take the implied debt associated with our gross finance receivables of $1.1 billion along with the $652 million of cash and short-term investments on the balance sheet into account, our implied net debt position on an operating company basis is currently $1.3 billion today.

Additionally, we have replaced our existing revolving credit facility with a new one, securing $500 million over a 5-year term. We have had good access to the capital markets, and our team has done a nice job reducing near-term debt obligations with more work to be done in regards to longer data maturities, making our debt maturities more manageable.

Turning to the P&L. Starting with revenue performance by line item as compared to prior year. Business services revenue grew 15%, and equipment sales grew 2%. We saw declines in financing of 6%, rentals of 7%, support services of 8% and supplies of 10%. The market exits from earlier in the year impacted the year-over-year decline in several line items, resulting in over 1 point negative impact on the overall revenue comparison in the quarter.

Gross profit was $333 million with a margin of 42.2%. This is a decline of 4 points from prior year, which largely reflects the shifting mix of our portfolio. SG&A was $253 million or 32.1% of revenue. Compared to prior year, SG&A increased about $12 million, was relatively flat as a percent of revenue. The increase in SG&A is largely due to higher employee-related variable compensation as compared to prior along with investments in ecommerce, which was partly offset by lower spend in SendTech.

R&D expense was $12 million or 1.6% of revenue. Compared to prior year, R&D expense declined about $3 million and improved to 0.5 points as a percent of revenue. EBIT was $69 million and EBIT margin was 8.7%. Compared to prior year, EBIT declined $28 million and EBIT margin declined by 4 points driven primarily by the gross profit decline in addition to the increase in SG&A this quarter.

Interest expense, including financing interest expense, was $40 million, which was $2 million higher than prior year. The provision for taxes on adjusted earnings was a credit of $12 million, which reflects a onetime $23 million release by foreign deferred tax asset valuation allowance recorded in the quarter.

Average diluted weighted shares outstanding at the end of the quarter were $171 million, which is about 17 million shares lower than prior year.

Let me now discuss the performance of each of our business segments this quarter. In our Commerce Services group, revenue was $410 million, which was growth of 15% over prior year. EBIT was a loss of $4 million, and EBITDA was $21 million.

Within Global Ecommerce, revenue was $279 million, which was a growth of 20% over prior year. This top line performance benefited from growth in volumes across each of our ecommerce solutions.

The revenue growth has primarily driven by continued strong volume growth in our domestic parcel services, which grew delivery in returns volumes over prior year by 27% to 29 million parcels in the quarter and 89 million parcels year-to-date. Volumes through our shipping solutions and cross-border offerings also grew this quarter over prior year. We continue to add new clients this quarter. As an example, Etsy chose Pitney Bowes to help provide their sellers whether additional cost-effective shipping options.

EBIT was a loss of $22 million in the quarter and EBITDA was a loss of $4 million. The loss was driven by 3 major areas: Continued investment, mix of business and incremental costs associated with our fulfillment services. Let me drill down into each of these areas. First, continued investment. As mentioned on previous calls, we continue to expand our network primarily in major markets on the East and West Coast. This naturally requires operational and capital expense upfront, and we will not reap the productivity benefits until the facilities are fully functional.

In addition to the new facilities, we continue to invest in engineering and marketing programs, which will support the growth of this business along with improving its margins.

Through our investments, we continue to remain competitive on speed and reliability when it comes to our service delivery times. On average, we continue to deliver parcels just under 3 business days.

Second, mix of business. We continue to ramp up volumes in our domestic parcel service with delivery and fulfillment revenue outpacing returns. As we have talked about in the past, our returns business is at a higher margin, which creates a shift in total margin. As delivery and fulfillment get to scale, this mix shift impact will soften.

And third, incremental costs associated with our fulfillment services. We added a number of new clients, which brought in incremental volumes to which we had to reallocate, and in some cases, ramp up resources to handle based on the needs of our clients. We also had some execution issues, which we are addressing through a series of actions that will streamline decision-making, move us closer to the client and improve operational execution. In addition, in the quarter, we had to increase our bad debt expense related to one of our retail clients filing bankruptcy.

Within Presort Services, revenue was $131 million, which is growth of 5% over prior year. Total volumes processed grew nearly 6% to nearly $4.3 billion in the quarter. Volumes grew across all categories with the major drivers being First Class and Marketing Mail.

Gross margins increased over prior quarter and prior year driven by lower labor cost per unit as a result of the productivity actions that we put in place earlier this year. In fact, overall labor costs were down despite the nearly 6% year-to-year growth in volumes. This was partly offset by a lower revenue per piece driven by mix. EBIT was $18 million and EBIT margin was 13.5%, which was an improvement over the first half of this year, less than 0.5 points lower than last year. Margins this quarter also included third-party consulting fees. EBITDA was $25 million and EBITDA margin was 19%.

Turning to our SendTech segment. Revenue was $380 million, which was a decline of 5% from prior year. Excluding the impact of market exits, revenue declined less than 3%. Equipment sales grew this quarter as we saw growth in 4 out of 7 of our major markets. In the U.S., the growth was due, in part, to converting the backlog that we talked about at the end of last quarter. Equipment sales also grew in France driven by a large deal, and we had growth in Japan and Germany in the quarter. The rate of decline in our recurring revenue streams was similar to prior periods. Business services revenue grew, which was helped by the news shipping streams that we are creating through our shipping capabilities.

EBIT was $131 million and EBIT margin was 34.5%, which is an improvement over prior year of 1 point despite higher cost associated with China tariffs. EBITDA was $141 million and EBITDA margin was 37%.

Let me now update you on our annual guidance for 2019. With regard to the ransomware attack in October, we have insurance to cover these events, and we are working with our insurers. At this point, virtually all operations are up and running, and no data has been compromised. It's important to note that we expect a significant portion of any impact to profit to be covered by insurance. However, the timing of receiving those proceeds will likely be in 2020.

Given this ransomware attack is a unique event, the majority of the incremental costs and subsequent insurance recoveries will be excluded from our adjusted EPS. However, lost revenue, the resulting profit associated with that loss revenue, while still eligible for insurance coverage, will remain in the company's adjusted results and will impact the company's full year performance.

We are reaffirming our annual guidance for adjusted EPS and free cash flow. We expect the impact of the ransomware attack to our full year revenue could be approximately 0.5%. We expect revenue on a constant currency basis to be in the range of 1% to 2% growth when compared to 2018. This range does not contemplate any impact of the ransomware attack, which could be approximately 0.5%. We expect the adjusted EPS to be in the range of $0.65 to $0.75 and free cash flow to be in a range of $175 million to $205 million.

In summary, we made good progress against our strategic initiatives, having announced a sale of software which creates a more focused and streamlined portfolio and further supports our strategy to operate in markets where we have competitive advantage.

On a comparable basis, we grew revenue 6% this quarter driven by growth in Global Ecommerce of 20%, which points to the work we have done to shift our portfolio. Our newly renamed SendTech segment delivered strong EBIT and EBITDA margins with a lot of runway still in front of as shipping and third-party financing ramp up. We remain focused on our balance sheet. We will use the majority of the net proceeds from software sale to reduce near-term debt, and we will continue to assess the capital markets in the near term to make our debt profile more manageable.

With that, let's now open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Allen Klee from National Securities.

Allen Robert Klee ***National Securities Corporation, Research Division - Research Analyst***

Starting off with the comments on what you've been doing with your debt. Could you give us -- for the new $500 million, 5-year term loan, what the interest rate is on that? And then maybe what your pro forma interest rate, run rate is based on all the changes that you've announced so far?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Allen, good morning. Thanks. So first of all, just for clarity, the term loan that we took out, it's actually $400 million. The revolving credit facility was $500 million. So if we take a look and go through the $400 million TLA, and you could see this on the attachments to our 8-K that we'll do later here this morning was LIBOR plus $175 million. So that puts in the range for the new debt here on the TLA for $400 million.

And I think your second follow-up was on a pro forma basis. I'd tell you, if you look at what we retired here of the $300 million TLA that was due December and the $200 million TLA that was in September, those were 3.6% and 3.8%, respectively on the latest all-in rate. So you can see, we'll have a material impact there. What will have an impact as we go forward is what we're going to do with the remainder of the net software proceeds as well as we adjust for the debt for next year. So we're not going to do guidance for next, but I think you get a feel for what we are looking at coming out of Q3.

Allen Robert Klee ***National Securities Corporation, Research Division - Research Analyst***
Okay. And then with Global Ecommerce, I understand the investments going after a large opportunity. Does any of this -- and it's had an impact on your margins in the quarter, which hopefully help long term. Does this change at all what you've said on the Analyst Day of your forecast for what the timing and the opportunity is for the profitability for Global Ecommerce?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
So on Global Ecommerce in the quarter, let me start there. First of all, the revenue grew 20%. That's actually the strongest growth this year. And we did have an EBIT loss in the quarter driven by really 3 areas: the continued investment, we added 2 new larger facilities, one on the East and one on the West Coast, but those are needed to drive the volume and we grew volumes 27% in the quarter; and shipping APIs, which feed into that grew 155%. So some good performance on the volume growth.

Second, the mix of business which we've talked about, we continue to ramp up volumes in our domestic parcels with delivery and fulfillment revenue outpacing returns, that has a mix effect, which impacted margin.

And we talked about some execution issues in fulfillment. Now we brought on some several new clients in fulfillment, and as we're ramping up, we had to bring additional resourcing to address those. I think that's a shorter term.

So we are still driving ecommerce to get to EBIT-positive in 2020. As we take a look at that, that's going to be a ramp-up in volumes to build scale, operational improvements to reduce cost structure. So we continue to invest in that market opportunity, and we recognize that this is going to be a big move from where we are here in 2019. But we continue to work around that growth brings scale.

We announced -- you may have seen the press release, we announced a price increase that will go out. It's lower than market and fewer fees in the competition. We're going to expand gross margin through efficiency, both transport, labor and that rate through scale. And finally, as we alluded to in the comments, that group has taken some structural actions to both improve their own efficiency and speed of decision-making.

Now what we're doing from a global perspective for PB is also taking out additional corporate structure. So we're on the path to deliver that profit in 2020 and with a plan B to take out additional structure.

Allen Robert Klee ***National Securities Corporation, Research Division - Research Analyst***
Okay. That's great. And then for the SMB segment, I thought -- can you talk -- you mentioned you're

looking to roll out SendPro in -- internationally and then I thought I heard aversion for the lower-end clients. Could you maybe expand a little on this and what the opportunity is?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Sure. So within SendTech -- first of all, I had one is better revenue performances. We declined 3%, excluding the market exits, which is the best performance this year. I think importantly underneath that though, equipment sales grew in the quarter and they grew both in North America as well as international.

Now the opportunity within international, we are just starting that rollout of SendPro C, and that will go out over the next few months through our international markets. So that will certainly be a tailwind for those markets as they get the opportunity to sell that new technology. And then we continue to invest in this product line, and there will be additional contact coming out for lower-end clients.

Operator

Your next question comes from the line of Ananda Baruah from Loop Capital.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

A few, if I could. I just wanted to get a sense, just make sure that I understand. How are you guys seeing the demand environment just in general over the last 90 days? And really, the way I'm trying to understand it from is when you announced the sale of the software business, it seemed as though the guidance for the core company was set a bit lower, at least the low end of the guide was. And then it seems like the tax benefit might have been $0.03 greater than originally anticipated.

Correct me if that's not accurate, which would seem to dovetail with the sort of -- with the guidance coming off of the software sale. So could you just sort of like walk through that with me and just sort of level-set me on all of those dynamics?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Sure. Let me start with the numbers side of that question. So first of all, as we take a look, when we did the guide. Remember, our software business tends to be more back end-loaded. And as we extracted that for the year, that was reflected in our guidance. We're also coming up on some different -- more difficult compares as we go through the back half of the year. But I'd come back to -- in Q3, we had good growth here overall, and when you go across the segments, all three really performed well in the quarter from a revenue perspective. So from that side of it, we've seen solid performance and that will come up against a Q4.

On the tax benefit, we had disclosed in our Q that, that tax benefit was approximately $20 million and it came in just under $23 million. So again, it's on a tax basis. So that's $0.02, $0.025. Do you want to comment?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Yes. I mean on demand, just -- I'll go up a level if I might. If you look at our Global Ecommerce business, and we continue to see a strong demand environment there. And if you look at what the analysts predict for the holiday season, it's up 4%. That's strong. If you look at the delivery and return's performance underneath that, we'll release the shopping survey here in a couple of days. But continued strong demand for a better delivery in returns experience.

As it relates to SendTech and the meter business, you're right, the last 90 days was a pretty strong demand environment, different than trend. We continue to be optimistic about our opportunities to perform well in that business, particularly with the new product. But obviously, demand is going to continue to be challenged as it is in core mail. So I'd say it's mixed, but we like how we're positioned in each of the markets.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

And Marc, so it sounds like the core metering business has not -- hasn't gotten softer over the last 90 days, that it -- worse, it sounds like it's probably been a bit stable?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

I mean, yes. I mean retrospectively, you look at the last 90 days, it was stronger than the trends that we have seen. If you look at -- Allen asked a question before about the opportunity on the low end. I mean that the opportunity in the low end is tens of thousands, hundreds of thousands of low-end meters. So the market, from [our line] has continued to go through secular decline. That said, we've got opportunities to continue to refresh internationally for SendPro C and the low-end opportunities entirely in front of us. So we like our product positioning, if you will, in the market that continues to be challenged.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

And Marc, what -- how should we think about the puts and takes from sort of what your normalized EBIT run rate is going through the end of the year? The puts and takes to EBIT as we go into 2020? And I know you're not giving guidance here, but should we think of the goal of the EBIT growth for 2020? Anything you can help us there would be useful.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Well, you're right. We're not going to do 2020 guidance now, but we will do it in late January or February. As Stan said, there are several things that are positive that are in front of us. So the Global Ecommerce team has taken structural actions that have already taken effect. Presort have taken structural actions that have already taken effect. And then there's corporate actions on top of that. So there's a series of actions from expense perspective that are already done. The mix dynamics will continue as the mix of the business continues to change. So -- but suffice it to say that our focus is to getting to EBIT-positive here sooner versus later.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

Okay. Okay. Great. Just, Stan, a couple of quick ones for you. Any particular reason that corporate costs increase year-over-year, I think it was about $20 million?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Yes. So if we take a quick look at what happens overall on the expense side of the equation, the -- one of the drivers is employee variable comp, and that has much to do with last year on the release as it is to do with this year in an accrual. If you go and peel that back a little farther though, Commerce Services actually improved on a year-to-year basis. Marc referenced some of the structural actions and overall, corporate spend improved as well. And then on SendTech, they improved by over $10 million year-to-year. And I apologize, I said Commerce Services. Actually was the -- an investment here of about $5 million on a year-to-year basis. That investment is really coming along for expanding the go-to market. So when you kind of put that together, SendTech was clearly a help. The employee variable comp here was a hurt, which had more to do it last year than this year. Now we continue to make the investment in Commerce Services.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***
Got it. Got it. And then just last one for me for now, guys. I appreciate it. Can you just give us -- I know you've touched on sort of refinancing the remainder on what you're going to refinance. Can you -- but just more specifically, can you just refresh us on the time line this year and looking at now to get the refinancing done? How much now are you -- can you update us to how much you are looking in total to refinance? And then the third part, I can repeat this sort of in a moment, if it's too many specifics. But just on the new loan, is that secured debt? And can you just -- what can you tell us about the terms could be helpful.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Yes. So a lot in that question, Ananda, but let me take a shot here. So first of all, you can see, we were very active in Q3 rolling right into Q4. So if you take a step back, we had 3 term loan payments between Q3 and Q4. We did $165 million in September and then we had paydowns of roughly $150 million and $278 million in November. So if you kind of add all those up at a big round number, that's roughly $600 million of paydown. Now some of that, we took out of cash on hand and then we took a new Term Loan A, which we talked about earlier for $400 million. So kind of round numbers, that's a net $200 million reduction.

Now the timing is obviously going to be influenced by -- when we conclude on the sale of the Software Solutions unit. So that's going to impact the timing as we go through. Then you hit some year-end dynamics here as well in terms of timing. So we expect to close on that transaction in 2019, which would enable us now to go into the second mode of what we're looking to do for the refinance. I'm not going to give the exact time line of that. That's obviously going to take what we can do in the market. I will tell you, we're looking and evaluating all of those options, and we have a map of how we want to use those proceeds. But I think you'll see two things coming out of that. First is that there'll be a reduction to near-term towers; and second, that we'll look to set up those towers over a longer period of time to be a more manageable debt profile. That's what I want to leave you with on that action.

On the securitized components. So yes, the term loan, the RCF, our secured facility. And I would tell you that those are in line with companies that are equivalent to credit grade.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***
Okay. That's super helpful. Okay, this is the last one for me. Just a market clarification. Your comment about working to get to profitability, is it possible that, that could occur for the overall company in 2020?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
We'll do guidance in January. But yes, I mean it's possible.

Operator
Your next question comes from the line of Kartik Mehta from Northcoast Research.

Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***
Stan, you talked about the Global Ecommerce business and a couple of execution issues had that happened in the third quarter. Are those resolved? Or could those linger into the fourth quarter and have an impact on the results of the business?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Yes, Kartik. Thanks. Yes, the execution issue is really around fulfillment, and we brought in several, very large clients. We had to staff up, catch up on a backlog. And then openly, the malware incident, the ransomware incident, wasn't helpful as going through that component.

I would tell you that fixing the underlying structural components of being able to handle that volume, I do believe has been addressed. And obviously, as we're heading into peak, we also believe we've addressed the staffing that goes along with that. So while we're recovering through the ransomware incident, which I think the teams have made incredibly good progress on, we look go forward. I would tell you that those execution issues are largely behind us.

Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***
And then you talked about getting to a positive EBIT for Global Ecommerce, I believe, in 2020. And as you said, Stan, that's a pretty big delta to where you are now. And I'm wondering, is that all related to volume? Are there other components within that business that would allow you to achieve that?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
It's an overall balanced equation here, Kartik. So it's a few things. First, volume is clearly going to help, right? The better volume, the better rates you can negotiate. But we have a whole series of productivity actions within our Global Ecommerce unit. And we are seeing some traction on labor and transport as well. So we're going to see productivities come across. Those 2 facilities we brought on, obviously, those are very large facilities. You have to gear up and invest in transport and labor to get them stood up

before you start moving volume. But we expect that we'll move volume through those in the fourth quarter at peak.

So that was clearly a headwind here that we had in Q3 and one of the things I think will get better. We've also, as you saw the press release, launched a price increase that goes out. And that's in line with the industry. I think ours is a little bit lower and has far less fees associated with it, but that will also provide us a tailwind.

And then we also mentioned that, that unit has taken some structural actions, and I think those structural actions -- this unit has grown so rapidly over a short period of time that inherently, we've become inefficient. And Lila and her team, I think, have taken the appropriate actions which will streamline their decision-making but also take out that structure. So I think those tailwinds are what will help us driving into 2020 to drive towards that profitability.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

That's the same one additional point. I mean if you just stand that up, I think it bears repeating. If you look at those structural actions, pricing, done. Structural cost takeout, done. If you look at the other cost takeout, that tends to be around negotiation with particular carriers, much of that is done. So this isn't stuff that we're betting on to come, this is stuff that's either in-flight or already done. And there's still a go-get for sure. But there's a lot more of this that's already done than meets the eye, and we'll have more to say in January for sure.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

And on the revenue component, we continued to add new clients, and we grew volumes here 27% and have had a good traction on that side as well.

Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***

And then just one last question, Stan. As you talked about the Presort business, is the margin -- that your third quarter margin a good run rate or -- are there any puts and takes on it that will impact margins as you move forward?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Look, I've been pleased with the progress our Presort team has made. If you take a look, that EBIT margin has gone from 11.2% in Q1, 12.1% in Q2 to now, 13.5%. And there is a combination here. I think one of the telling comments I made on the script is while labor costs has come down, at the same time, volumes went up. I think that's a good sign that we're delivering productivity through Presort. We're also growing revenue here. So we continue to see traction in the market. I would expect that those margins will improve off of this level. Our long-term model is to get greater than 15%, and I think we'll make progress here in fourth quarter.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

The other expense that we had in the third quarter, which Stan mentioned, was the expense for the consultant. So that's obviously an expense that subsides overtime.

Operator
Your next question comes from the line of Anthony Lebiedzinski from Sidoti & Company.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
So I guess, first on the Global Ecommerce. So you mentioned that you're open to new facilities. Just wondering if perhaps you could isolate the initial start-up costs for those facilities. And as you get into 2020, do you anticipate to open the additional facilities to handle the volume?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Thanks, Anthony. Thanks for joining this morning. So I can't isolate out the exact cost to those facilities. As you would imagine, there is capital expenditure costs that we have, that gets capitalized on our balance sheet as we set up the equipment within those facilities. Then obviously, we're staffing labor and the management and the transport, that all goes in with setting those up. Clearly, that had an impact in the quarter. As you look on a go-forward basis, we have mapped out our plan and that's included in our comments on Global Ecommerce, on the capital and the number of facilities that'll be needed to support the growth inherent in the model.

So short answer is yes, we'll continue to add facilities, and that's going to be variabilized by the growth that we see and the traction we see in the market. These 2 new facilities are both quite large, one's roughly 0.5 million square feet and the other one is a little bit bigger. So large on each end of the coast here, which will help us do a lot of our China inbound as well.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
Got it. Okay. So looking at the equipment sales, obviously, those were up for the first time in a while. You -- Stan, you talked about the closing a large deal in France. If you were to exclude that French deal, would your equipment sales still be up? And how should I think about that line item going forward?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Yes. Look, large deals are a part of our business. So we don't have a large deal, we don't get to add them back in. So this is part of something team works really hard on. But I would tell you that we still would've grown roughly without that large deal. When we think about equipment sales, one of the tailwinds we had coming into the quarter, which we won't have on a go forward is, if you recall, we talked about a large backlog in North America. The team did a good job working through that backlog in getting those installed, and that helped drive equipment sales in the quarter.

But having equipment sales grow, we've said before, is not going to be a straight line. We're going to see some ebbs and flows with that. I'm pleased with the international growth. If you heard the comments, we also grew in other countries outside of France and Japan and in Germany. So the growth wasn't isolated to just the countries with the large deal. As we head in the fourth quarter, we won't have that backlog to clear out, but we have new product offerings coming in, in the international marketplace.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
Got it. Okay. And also at the Analyst Day, you guys talked about the SMB or now, SendTech segment, that you're looking to have the EBIT in that segment to be flat or grow in 2021. Are you still on track with that goal?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Clearly, I'm not going to give guidance here for 2020, what I'd point to is the performance in the quarter. We had a very strong EBIT margin, the strongest we've had this year, and it was up to year-to-year. So that contribution from SendTech, I think, is a good indication that they're making progress and you saw it in multiple fronts and multiple places. This isn't just one angle that came. They've reduced their structural expense. They're bringing out new product. Wheeler Financial is an investment that is just pooling up but will yield over time. So they're making long-term investments. They're taking productivity actions to contribute. And I think we see in our performance here with a very strong EBIT performance.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
Got it. Okay. And lastly, as far as the tax rates were for this year, what's your expectation? And I assume that your tax rate will be much higher next year. But any kind of color into -- for 2020, that would be very helpful.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Yes. I think if you look as we kind of wrap up the year here, we do expect that the operational tax rate will go back into the range we guided to, probably, candidly, towards the higher end of that range. If you take a look, and we're talking about EBIT on a year-to-year basis in 2020, while we're not going to give guidance, we need to keep in mind that there is a -- just under $23 million tax benefit in 2019. That will become a headwind next year as we think about net income. So segregate EBIT versus net income. So the tax rate for next year, on an operational basis, you have to see what other things happen in tax. But I think you should think about our operational guidance for this year to be roughly in line for next year.

Operator
Your next question comes from the line of Shannon Cross from Cross Research.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***
Just a couple of questions. The first one is on the price increases. Is there any reason to believe that they won't go through across your product set? Or is there a potential for volume discounts or something that would offset some of those just as we think about next year?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Thanks, Shannon. So look, with the price increases, when you think about this, we've announced them through that, as you know, the industry does this. They're not all going to go through. There's going to be some volume discounts, in particular, as we sign larger clients, et cetera. So you are going to see some

give-and-takes. I don't think I would take just the existing revenue and pop it up by the amount of the increase. And that's going to be also a competitive pressure of what the pricing is in the market. If you look at what's happened in the market, we're certainly not the outlier here. The market has moved in this direction, and I think ours is competitive.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***

Okay. And then I'm curious, Amazon has obviously made some moves to try to speed their delivery and significant investments there. What are you hearing from your customers in terms of the delivery times that they would -- a, I guess, their customers are wanting to see, but more importantly, that they're willing to pay for? So 3 years -- 3 days, 5 days, 1 day? I'm just curious just to sort of what the discussion is out there.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. And I think it varies on the clients, Shannon. So when we take a look, there's a combination of free versus fast. And when we look that in a marketplace, remember, a lot of the retailers that we deal with don't necessarily want to participant in the Amazon ecosystem. So they're looking at how do they -- most cost-effectively get their product to the consumer and they're balancing fast versus free. Our studies have shown us that if there's something -- if it's "free", and you know there's nothing really free in the world. With Amazon, you pay Prime. But here for our retailers, if it's free and they can get it within 2 to 3 days, that seems to satisfy a large number of the clients. And you've seen us move our average delivery to under 3 days. That's going to -- that's an average of under 3 days. In certain markets where we have the facilities and more importantly, where our clients have their inventory located, allows us to do it faster than that.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Let me just plug the shipping survey that comes out in the next several days here because it speaks to a lot of these dynamics. I think just to summarize what we're hearing from clients and importantly, what we're hearing from consumers as well is, really, it's got to be 2 days or less and free. And that's kind of where the measure is.

The second thing that we're continuing to hear and it was borne out in last year's survey is that most consumers continue to be unhappy with our online experience. So that speaks to the opportunity that's in front of us. Clearly, the bar continues to be raised, which all of the retailers need to respond to. And that's precisely the opportunity that we're selling into, and that's why we're so excited about how we're positioned in this marketplace. But more to come here in the next couple days in the shipping survey.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***

Okay. Yes, we'll look to that. And then my -- just my other question is with regards to cyberattack, what have you learned from it? I guess what changes are you making? Will there be incremental investments required in 2020? What are we getting -- 2020, yes. God, time flies. That maybe aren't already incorporated in expectations because of incremental security needs and that? I'm just kind of curious as you step back, if they are making any changes.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Share. We're still going through the forensics of the attack. I would -- that said, I'd highlight a couple of things which we know. Your perimeter defense needs to be strong. Where you need to be incredibly strong is once they're inside your network. We knew that before, and that was reaffirmed. In terms of incremental costs, they'll be contained within the various budgets. We may, I think, likely will rebalance some of those budgets. We've already taken actions to implement some new software that is more behavioral-oriented than the screening for particular viruses. So we'll get through this in the next several weeks to kind of get through lessons learned. But more to come.

The other thing I'd say, and it saved us, is our backup. There's 2 things that really were important for us getting backup relatively quickly. One is our backup was really, really good. So the reason we were able to restore our databases as we had backup that were largely unaffected by the principal malware attack.

The second thing is our disaster recovery processes worked well. I must admit that we didn't contemplate something of this breadth, but if you look at our various disaster recovery processes one at a time, all those plans held. So this item is just unfortunately a fact of life are companies and governments and other public institutions in today's economy. So you need to continue to get better and better here because the bad guys are getting better and better.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. And I guess I'd add a couple of things to that. First, just to reiterate, there's no evidence that any customer accounts or sensitive client partner, employee data were impacted or extracted from systems. Our financial systems, this particular virus is a Microsoft Windows-based target, and our financial systems and data are non-Windows systems, so they were not affected.

And I -- you always learn a lot when you go through these and for sure, we have made and will make a number of updates to architecture and the investments that go along with that. But you also learn a lot about the culture. And I know Marc -- I'll speak for Marc here, we couldn't be more proud of our team. They demonstrated our commitment to our clients and an enormous amount of grid. So I want to thank the PB team for that incredible dedication to get us back up and running. So we don't take this lightly. In fact, right now, we're working just as hard after recovery to make sure that we rebuild all that resiliency and prevent this from happening again. Really pleased with how the team did this bringing with this backup.

Operator

And at this time, there are no further questions. I'd now like to turn the conference back to Mr. Lautenbach for any closing remarks.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Yes. Thank you, operator, and thank you, again, for everyone joining. I would just reiterate what I said in my closing remarks. If you abstract up a level and evaluate the dynamics, we've got really strong momentum in our shipping business. Secondly, in our SendTech business, we've got good momentum because of the core investments we've made. Those investments and new products are now going to be spread around the world, so we like our positioning there. Our Presort business, likewise, has taken important structural actions. You'll see it in the labor costs. And then underneath that, we continued to drive operational excellence across all of our business.

So listen, it's a dynamic market, lots of things you can control, lots of things you can't control. But I'm pleased with the progress we've made and I'm pleased with the position going forward. And if you look at the balance sheet, actions that have been taken, that's just fortifies what we think is our strength going forward. So thank you for your time this morning. We'll talk soon.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation, and for using AT&T Executive Teleconference. You may now disconnect.
